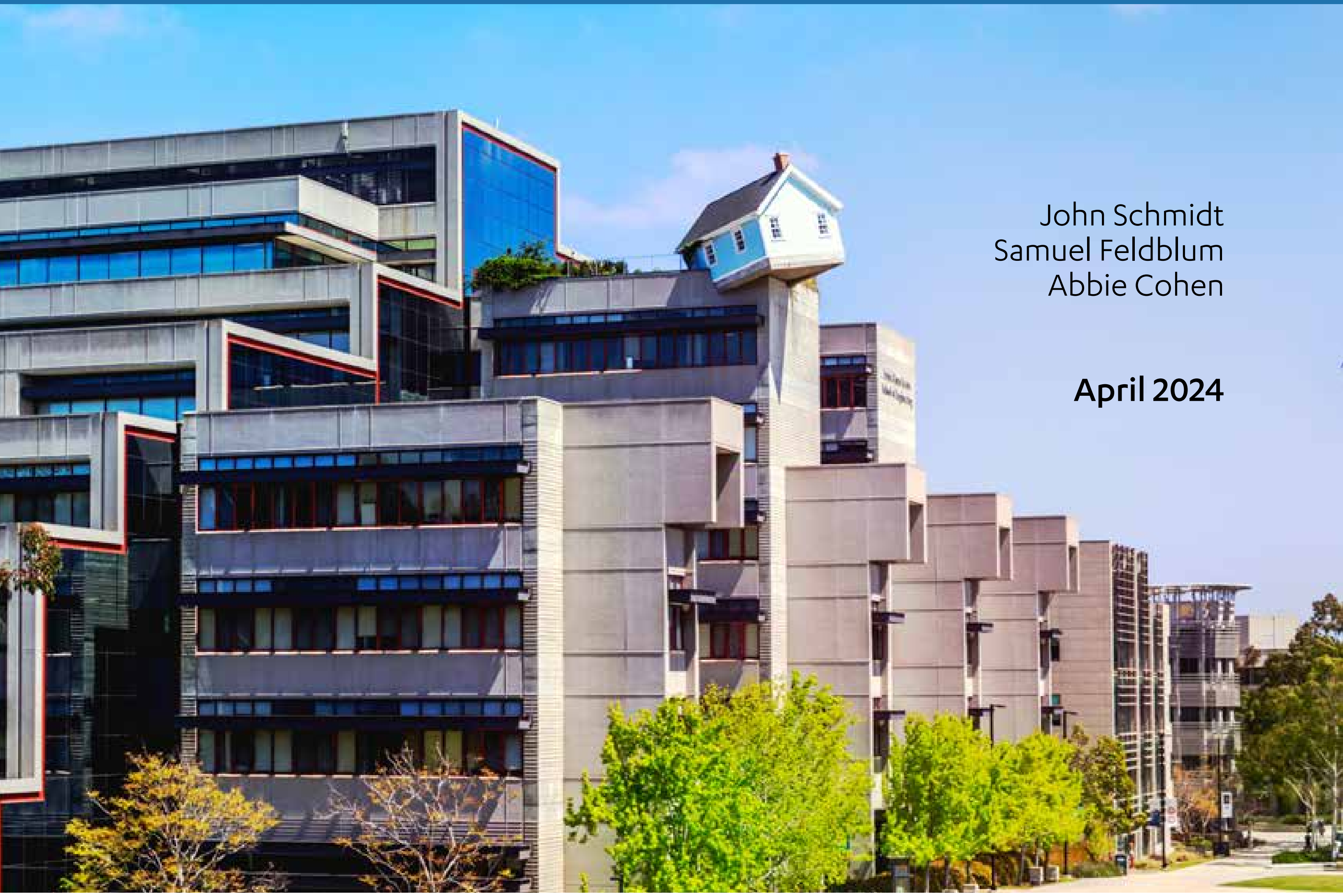
Selling Sunset:
Land and Financialization at the University of California



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Cover Image Credit: InnaPoka

La Jolla, California, USA - April 3, 2017: Fallen Star, *an artwork by Do Ho Suh, is a skewed house on top of EBU building of Jacobs School of Engineering of University of California San Diego, USA.*

Executive Summary

- The UC's $4.5 billion investment into Blackstone's Real Estate Income Trust (BREIT) in January 2023 marked the culmination of a funding model for the UC that has been developing for decades. The school increasingly relies on financial markets alongside student tuition in the face of decreasing state funding.
- Since the founding of a real estate investment arm by the school's treasurer in 2003, real estate has played a growing role in the UC's investment portfolios, burgeoning after the financial crisis in 2008 and now comprising 14% of the UC's endowment and 9% of the system's pension fund.
- Land and real estate have been important for the university since its founding. But real estate's increasing prominence in the school's investments results from the confluence of two trends: a) the financialization of American higher education since the 1970s and, b) the emergence of real estate as a legible asset class since the 1980s. The former left the UC increasingly turning to financial markets to fund its operations, and the latter—with Blackstone as a major protagonist—saw real estate become an attractive option for investors.
- The UC's investment in Blackstone implicates the university in an ongoing national crisis of housing affordability. The deal has led to pushback from various constituencies, including organized labor, UC students, and Blackstone renters.
- In addition to the BREIT partnership, the UC has recently signaled interest in managing properties of its own via a UC affiliated LLC, which offers the promise of a possible alternative model for the financialized university: tapping the on-campus expertise of housing and urban policy experts could allow for a real estate investment strategy prioritizing affordability for the public university's constituents rather than solely fiduciary responsibility to maximize returns.

Introduction

In November 2022, a group of 48,000 academic employees at the University of California–comprising teaching assistants, postdocs, and researchers–walked off the job in the largest strike in the history of higher education. During contract negotiations, graduate workers and postdocs' initial demand was for a "cost of living adjustment" (COLA) that would reflect the sky-high and rising rents of the cities in which UC's campuses were located. As journalists and academics noted at the time, the COLA demand—born of a wildcat strike in Santa Cruz in 2019—combined labor and tenant politics, addressing the UC as both employer and one of the state's largest institutional landowners.[1]

On January 3, 2023, less than two weeks after the graduate workers' contract was ratified and the strike ended, the UC announced a $4 billion investment in Blackstone's Real Estate Income Trust (BREIT). Just a few weeks later, the UC contributed another $500 million.[2] The move dramatically expanded a relationship that had existed between the university and the investment management firm in various forms for nearly two decades. The deal locked up UC's money in BREIT for six years in exchange for a guaranteed 11.25% annual return, shoring up the fund after a series of margin calls among Asian investors triggered redemption requests that Blackstone found itself unable to accommodate.[3] The high annual returns that Blackstone promised the UC indicated the apparent value of the market-calming investment to the fund, although not entirely: in the following months, investors continued to attempt to withdraw more funds than the BREIT could accommodate. [4]

The UC's investment into the BREIT is the largest single real estate deal that the university has ever undertaken

1 See, e.g., Appel, "Tenant, Debtor, Worker, Student," and Rosenthal, "The University of California Is Also a Landlord."

2 For official press releases announcing the event, see "UC Investments Creates Strategic Venture with Blackstone to Invest $4 Billion in BREIT Common Shares" and ""UC Investments to Invest Additional $500 Million in BREIT Common Shares."

3 Oguh, "Blackstone Offers Backstop to Lure University of California in Redemption-Stricken REIT."

4 Gara and Oliver, "Blackstone Fund Keeps Limits on Outflows as Redemption Requests Fall."

While the UC's investment into the BREIT is the largest single real estate deal that the university has ever undertaken, it is far from the first. Before the BREIT deal, UC had already invested approximately $6.4 billion in real estate across 130 funds, trusts, and separately managed accounts in both its pension and endowment. With the addition of its mammoth investment into BREIT, real estate investments in the university's endowment and pension funds has grown to $10.25 billion. As of its last disclosure, nearly 14% of the endowment and 9% of the pension is invested in real estate.[5] This slightly overshoots the university's current investment targets, which aim for 7% of UC's pension fund and 8% of its endowment—and up to 12% in both cases—to be allocated toward real estate.

14% OF THE UC ENDOWMENT IS INVESTED IN REAL ESTATE

The Blackstone investment is an outcome of the UC's evolving relationship to land, which has in the twenty-first century come to occupy a position of increasing centrality for meeting the university's pension, teaching and research obligations. As we will show, this momentous investment represents the culmination of a longstanding convergence between the dual processes of financialization of higher education and the transformation of land and real estate into an asset class. "Financialization" here means the increasing reliance of public universities on capital markets, tuition and endowment wealth, with real estate as a growing element of schools' financial portfolios.

This momentous investment represents the culmination of a longstanding convergence between the dual processes of financialization of higher education and the transformation of land and real estate into an asset class.

In both its investments and its direct ownership of property, the UC is a landlord. The specificities of its relationship to land and real estate have, however, changed over time, in concert with a broader process of privatization of public higher education in general and of the University of California in particular. The production and maturation of real estate as an asset class legible to market actors coincided with the financialization of higher education, such that universities have increasingly found this asset class an attractive investment proposition for the large pools of capital under their control. This confluence means that the school now funds its pension and operational obligations at least partially—but increasingly—from the rents the school draws as landowner of properties across California, the nation and the globe.

In a press release announcing the deal, UC regent Richard Sherman offered that "This type of large, opportunistic investment effectively leverages the UC's more than $150 billion portfolio to benefit the 600,000 students, faculty, staff, and pensioners from our 10 campuses and six academic health centers."[6] Insofar as it would benefit a public institution educating and employing Californians, the deal was pitched as operating in the public interest. Yet it was met with vociferous pushback, especially from

5 These figures come from UC Investments' 2022 and 2023 General Endowment Pool (GEP) and UC Retirement Plan (UCRP) holdings disclosures. "GEP Holdings as of June, 30 2022," "GEP Holdings as of June, 30 2023," "UCRP Holdings as of June, 30 2022," and "UCRP Holdings as of June, 30 2023."

6 UC Investments Creates Strategic Venture with Blackstone to Invest $4 Billion in BREIT Common Shares."

labor unions representing UC workers. In a statement demanding that the UC divest from Blackstone, unionists wrote that "The CIO Office's recent $4.5 billion investment in Blackstone Real Estate Income Trust—in effect, a bailout of a fund plagued by high redemption requests—cements the University's position as a major driver of the housing affordability crisis."[7] Indeed, this housing affordability crisis is acutely felt by those closest to the university: its students, 5% of whom reported experiencing homelessness in 2020-21 and 16% of whom reported sleeping in nontraditional housing arrangements as they lacked permanent housing.[8] But while the university exerts direct influence over student housing affordability, its real estate investments extend beyond campus. The labor unions' letter speaks on behalf of another, more diffuse public of Californian renters claiming harm from the deal. Multiple—and overlapping—publics found themselves in competition.

In higher education, privatization has been generally understood as a dual process—on the one hand, cuts to public funding, i.e. taxpayer-financed state appropriations; on the other, increasing reliance on non-state funds, i.e. student tuition revenue, capital markets, philanthropic gifts, and endowment wealth. The literature on privatization has focused much of its attention on tuition and student debt as a way of shifting costs from taxpayer to student, with the effect of turning higher education from a public good into a debt-financed investment undertaken by individuals that will pay out over their lifetime in the form of enhanced future earnings[9] —what is commonly described as the "education premium."

Adding the lens of real estate reframes this narrative: what has happened to the UC over the last several decades is not just more and more privatization—though it is that—but also a process of conjuring up a new "public" to finance higher education.

Adding the lens of real estate reframes this narrative: what has happened to the UC over the last several decades is not just more and more privatization—though it is that—but also a process of conjuring up a new "public" to finance higher education. This new public is not California taxpayers, and does not form an organized and self-conscious group that understands itself as such; yet emergent patterns of UC property ownership have the effect of enrolling a new constituency into the financial operations of the public university.

Renters across the country pay into the system alongside the students investing in themselves. Yet while the UC finances itself through returns from its real estate investments, this renting public is not even necessarily being conferred the individual benefit of the education premium. At the same time, the Blackstone deal implicates the university in an ongoing national crisis of housing affordability.

In what follows, we situate the BREIT investment in the longer sweep of the UC's financial history. We begin with the originary bequeath of land to the university by the federal government under the 1862 Morrill Act, with land

7 "Unions & Housing Advocates Continue to Call on UC to Divest from Blackstone and Instead Chart New Course on Affordable Housing."

8 "California Student Housing: Solutions for Improving Capacity and Affordability."

9 See, e.g., Meister, "Debt and Taxes," Newfield, ***The Great Mistake***, and Steinbaum, "A Brown v. Board for Higher Ed."

continuing to play a crucial philanthropic role throughout the university's early decades. We then consider the growing financialization of the university that took place beginning in the 1980s, as private funding streams moved from the periphery to the core of the university's funding model. Real estate, we demonstrate, came to occupy a position of increasing importance as an asset class for the university after the turn of the millennium, and especially in the years following the financial crisis. After explaining Blackstone's pivotal role in the financialization of residential real estate and its effects on housing affordability, we then narrate the process by which the university became a real estate investor in the 21st century. Drawing from the minutes of the UC's investment committee and from the UC Chief Investment Officer's annual reports,[10] we elucidate the path that has led the university to the current moment: a mammoth investment in the BREIT, allowing passive management and high returns, alongside renewed plans for an actively managed LLC with which the UC would control its own investment properties. In view of the changes to university funding models that we trace, we then close with a series of policy suggestions about how the UC and the state could fruitfully rethink funding of higher education, and honor its public mission within its real estate investment strategies.

10 The Office of the Treasurer was renamed the Office of the Chief Investment Officer in 2013. Earlier cited documents are here referred to as coming from the treasurer.

"An Endowment Before UC Opened its Doors"

The University's Early Relationship with Land

The scope of the UC's Blackstone deal represents an important new chapter in an old story. Indeed, universities have long played a central role in the shaping of urban space through their land and real estate acquisition, and a growing historical literature traces the complicated and often antagonistic relationship between universities and the cities in which they operate.[11] Initially envisioned in starkly racialized terms as citadels of learning separated from the perceived dangers of the city, universities have more recently come to function as "anchor institutions" for processes of urban renewal as post-industrial cities attempt to position themselves as hubs of new regional, national, and international knowledge economies.

Universities have long played a central role in the shaping of urban space through their land and real estate acquisition

While this historical work usefully charts the changing footprint of "univercities" in processes of urban development, displacement and gentrification,[12] it tends to focus more on the role real estate plays in the university's operations and less on the role real estate plays as an asset class. Both facets—the university as urban developer, the university as real estate investor—are essential to grasping the full scope of the current role played by institutions of higher education in the remaking of American cities, but the latter is our focus here.

This means focusing on the function of land in the growth of the university's endowment fund (and later its pension fund). Though it has only become in the twenty-first century a tractable asset class for the UC's investment team, land ownership for the endowment has been central to the university since its outset. In 2008, as the UC treasurer's report took stock of its losses in a tumbling market environment, they paused to note this long historical thread, stretching back to the Morrill

11 See especially Baldwin, ***In the Shadow of the Ivory Tower***, Cole, ***The Campus Color Line***, Wilder, ***Ebony & Ivy***.

12 Baldwin, ***In the Shadow of the Ivory Tower***.

Act and its bequeath of federal land to found the university. The treasurer wrote: "Abraham Lincoln established the first University of California (UC) endowment when he signed the Morrill Act on July 2, 1862, thereby establishing the land-grant colleges and universities—including the University of California. The Act provided 30,000 acres to each state that had a Congressional representative at the time… UC only recently sold off the last acreage obtained under the Morrill Act. In short, UC had an endowment before UC opened its doors in 1869." [13]

The land granted by the federal government via the Morrill Act for the establishment of a nationwide system of higher education means that endowment wealth—for the UC and other universities that were its chief beneficiaries—has land at its historical base. A wave of recent scholarship has focused on that land's stolen provenance.[14] California land and its nascent university system in many ways embody this story.

The Morrill Act funded university endowments by granting individual states "scrip" redeemable for public federal lands—which had often been acquired through the violent dispossession of indigenous inhabitants. That land would then be sold to establish or expand state colleges. Approximately 16.5% of the acreage acquired and sold this way was in the recently established state of California, supporting the endowment wealth of 32 land grant universities across the country.[15] Much of this land ended up concentrated in the hands of speculators and industry barons—like Isaac Friedlander, the "Wheat King" of California, who also served on the UC's first Board of Regents. California and its fledgling university took particular advantage of the Morrill Act system. It secured the right to acquire valuable unsurveyed and railroad-granted land in 1868, which it then endeavored to sell at $5.00 an acre, "just double the highest price any federal lands were bringing at the time."[16] The UC's savvy Morrill Act acquisitions are an early portent of much later developments: since its founding, the university has proven adept as a land speculator.

The UC's savvy Morrill Act acquisitions are an early portent of much later developments

Land has figured into the university's operational logic ever since, albeit in evolving ways. In the decades between the UC's founding and the consolidation of its endowment in 1933, wealthy patrons bequeathed individually held parcels of land to the UC to provide it with funds via real estate sales or via rents.[17] These parcels stretched at least as far north as Oregon, and as far southeast as Redlands, CA. Many were closer to home, in Oakland and in Berkeley.

For much of the university's early history, land and property gifted to the university constituted a channel of philanthropic giving to augment its endowment wealth and

13 "Treasurer's Annual Report, 2007-08," 14.

14 Much of this work has taken inspiration from the pioneering reporting done by ***High Country News***. See Lee and Ahtone, "Land-Grab Universities."

15 Fanshel, "The Land in Land-Grant."

16 Gates, "California's Agricultural College Lands," 112. In a centennial retrospective on its history and founding, the UC reported that "[t]otal receipts from the sale of the Congressional college lands were almost $772,000 (about $5.17 per acre) in 1965." Stadtman, ***The Centennial Record of the University of California***, 1868-1968, 375.

17 For examples of early land bequests to the UC system, see generally "Endowments."

bolster its operational footprint.[18] In regard to the latter, for example, "most of the early buildings on the Berkeley campus were the result of gifts; and up until 1940, more than half of all the lands and buildings of the University came from sources other than state appropriation." [19]

The idea that land itself should function as a central piece of the investment strategy of the university, however, would only come much later, as innovations within the financial industry made real estate a tractable asset class which could usefully diversify the portfolios of institutional investors. The university, in this earlier moment, was happy to receive land bequests that it could use to support its core functions or sell to grow its endowment. But it did not yet understand itself as an investor in land in a fundamental sense.

Especially in light of the role the UC has assumed as a privileged partner and beneficiary of Blackstone's global property portfolio, the impression from these early years is a comparatively provincial view of land and real estate. A university report outlining its plans for "surplus land," produced in 1979 at the behest of the California state legislature, offers an updated snapshot of this dynamic at the outset of four decades of extensive privatization and financialization (which we take up below). Adjusted for partial ownership, endowment properties were surpassed by lands supporting the core teaching and research missions of the university, with the former comprising approximately 67% as much acreage as the university's nine campuses (13,342 acres). Endowment properties were moreover highly localized, with approximately 90% located in California and none of the remainder located further east than Illinois. The report describes the regental policy on the management and sale of endowment properties as follows:

> It is the policy of The Regents not to purchase real property for investment. Real property received as a gift or bequest is held if analysis of the total return warrants its retention...All parcels are continually reviewed as a function of property management. In accordance with The Regents' policy, the endowment properties are held for maximization of return, which includes both rental income and capital appreciation.[20]

Still in 1979, land gifted to the university's endowment provided limited streams of rental revenue and occasional capital gains upon its sale. It would be more than two decades before it was targeted as an investment opportunity by the UC's treasurer in a systematic way with the explicit blessing of the university's regents—a change in policy we narrate below.

18 Early philanthropic giving extended beyond donation of land. By the late 1950s and early 1960s, the university intentionally sought out and planned a systemwide effort to increase private philanthropy. The university's Office of the President (UCOP) established an office to work with each campus to seek out gifts for programs and enrichment. These funds were to be supplementary, enriching already existing programming but not replacing the core operations funding delivered by the state. The school came to increasingly depend on such giving; sporadic at first, philanthropy increased to a tradition of robust private support beyond just educational activities. For example, UCLA created its own foundation in 1966 to develop and accept private gifts directly. In a brochure from 1971, the foundation notes that "the public does not generally know that the state provides funds for less than half of the University of California's budgetary needs. *Private support has thus become essential.*" Emphasis ours, see "The UCLA Foundation."

19 Stadtman, ***The Centennial Record of the University of California***, 1868-1968, 2.

20 "Plan for Sale of Surplus Land," 7.

A “Devolutionary Cycle”

The Financialized University

State budget cuts and the increasing reliance of public universities on other sources of revenue continually reinforce each other

Many key features of the privatized university thus existed in miniature years before standard accounts of privatization begin. The existence of private streams of money throughout the university’s history later enabled what historian of the UC system Christopher Newfield calls the “devolutionary cycle.”[21] This describes a process of privatization in which state budget cuts and the increasing reliance of public universities on other sources of revenue continually reinforce each other. In other words, the public university is not simply forced to increase tuition by a cost-cutting state legislature; instead, by demonstrating an ability to raise operating funds through channels other than state appropriations, the UC indicates its independence to and from the state.

The privatization of universities describes the various strategies by which schools attempt to raise funds in this context of state retrenchment. The most familiar of these is hikes in tuition, and consequently the massive growth of student debt. As Appel et al. detail, in-state tuition at public schools nationwide rose by 243% since 1999.[22] This meteoric rise in the cost of attending college, which was enabled by a blossoming student loan business, should be thought of as an effect of the independent and interlocking benefits it offered schools, the financial industry, and the state. For states, the turn to student debt offered an escape valve in an increasingly tax- and revenue-constrained environment. For the financial industry, federal guarantees made lending an irresistible proposition and supported the growth of the student debt market. For schools, tui-

STATE TUITION AT PUBLIC SCHOOLS NATIONWIDE ROSE BY 243% SINCE 1999

21 Newfield, ***The Great Mistake***.

22 Appel, Whitley, and Kline, “The Power of Debt.”

tion provided unrestricted funds—unlike other sources of earmarked funding such as research grants or philanthropic donations, but like the dwindling state appropriations it increasingly replaces.

> *Taking on institutional debt via bond issuance forms another major pillar of the privatizing public university*

The ability to raise tuition is therefore a selling point for universities looking to borrow on capital markets, insofar as it improves their creditworthiness and makes borrowing cheaper. That selling point becomes important, as taking on institutional debt via bond issuance forms another major pillar of the privatizing public university.[23] Just as credit rating agencies prize universities' ability to raise tuition, they likewise cherish finance professionals in leadership positions, appreciate the strength and size of university investments relative to operating expenses, value brand strength—incentivizing glossy marketing campaigns—and recoil at labor costs, downgrading schools with higher union density. As financialized universities grow increasingly dependent on borrowing, they become beholden to these logics. Real estate, too, has a role to play in enhancing university access to capital markets on good financial terms: as Hannah Appel observes, "partible" real estate holdings, able to be sold, serve as liquid collateral and drive down the costs of borrowing, whereas "essential" holdings, those more directly relied on for campus function, generate revenue and add to the overall asset portfolio of the school.[24]

> *Real estate, too, has a role to play in enhancing university access to capital markets on good financial terms*

Out of the increasing reliance of the UC on capital markets—and the increasing prominence of financial professionals in the upper echelons of the university's administration[25]—has evolved a complex debt structure meant to maximize the university's various revenue streams to make borrowing cheaper. The largest and most important instrument the university has for raising capital is the "general revenue bond," which was introduced in 2004 and became a minor source of campus controversy after the financial crisis.[26] The bond is backed by "a lien on gross student tuition and fees, indirect cost recovery from grants and contracts, net sales and service revenue, net educational and auxiliary revenue, unrestricted investment income and a portion of state appropriations":[27] almost every form of university revenue becomes collateral. The general revenue bond is the primary vehicle by which the university borrows. Student housing, by contrast, is largely financed through "limited project revenue bonds," backed by the revenue generated by the project itself. It is important for the university that these projects be self-financing—in 2022, Moody's reports, the revenue on all projects funded by limited project revenue bonds was nearly four times its debt service. Like tuition, rent from UC students therefore plays a significant role in securing the university's creditworthiness, and the UC pledges future revenue from these projects—i.e. student rent—to its bondholders.

23 Eaton et al., "Bankers in the Ivory Tower," Schirmer, "It's Not Just Students Drowning in Debt. Colleges Are Too!"

24 Appel, "Tenant, Debtor, Worker, Student."

25 See Eaton et al., "Bankers in the Ivory Tower."

26 Meister, "They Pledged Your Tuition."

27 "Credit Opinion: University of California."

Private philanthropy is likewise essential to the financialized university, and often comes with strings attached

Private philanthropy is likewise essential to the financialized university,[28] and often comes with strings attached. In the infamous recent case of Munger Hall, for example, billionaire Charles Munger donated $200 million to UC Santa Barbara toward the construction of a 4500-student dormitory on the housing-stressed campus. Munger, a professional investor and amateur architect, had designed the building to his specifications, to which UCSB agreed upon the acceptance of his gift—two entrances for those thousands of students, and 94% of rooms with no windows.[29] After two years of outcry at the plan, it was canceled in 2023. While on one hand UC's stakeholders ultimately rejected an imperious philanthropic gift, on the other hand, the fact that Munger Hall almost existed at all demonstrates the reliance of universities on the good graces of philanthropists, who possess a great deal of discretion to control their gifts—and by extension, university life.

Increases in tuition, in debt financing, and in philanthropy constitute the historical devolution of the public UC. Since the 1980s, deep state cuts have left the university system strapped, reliant on these alternative sources of revenue: the state's share of the UC's core fund for teaching and research dropped from over 75% in 1985-6[30] to 46% in 2024. This represents just 9.8% of the system's overall budget, which also includes inter alia medical centers, sales and services, and government contracts.[31] The shortfall is largely made up by tuition, but this too has its limits, both macroeconomic and political.[32] Multi-year tuition hikes in 2003 after the dot-com bubble burst, and again in 2009 after the financial crisis, created an emergency for the university when students across the state staging walk-outs were joined by the striking technical workers staring down layoffs.[33] Governor Jerry Brown responded with a tuition freeze that has kept tuition largely flat across the system since 2013; four years later, the state capped enrollment of nonresident students, who typically pay a higher tuition than California residents. Besides emphasizing the importance of non-tuition private revenue streams in the face of the freeze, the episode demonstrates the possibilities for concerted political action reorienting the university's financial strategies.

28 See generally Chan, "Studying Philanthropy and Fundraising in the Field of Higher Education: A Proposed Conceptual Model," Giroux, ***Neoliberalism's War on Higher Education***.

29 Hayden, "Architect Resigns in Protest over UCSB Mega-Dorm."

30 Newfield, Bohn, and Moore, "Current Budget Trends and The Future of the University of California," 6.

31 UC Office of the President, "Budget for Current Operations, 2024-25"; for the implications of this shift on labor, instruction, and research at the UC, see Feldblum, Schmidt and Khan, "The Transformation of Academic Labor."

32 Nemser and Whitener, "The Tuition Limit and the Coming Crisis of Higher Education."

33 O'Hara, "University of California Campuses Erupt into Protest."

The “State-Assisted” Public University and Transformation of the Endowment

Already in 1983, planners of a UCLA giving campaign wrote, the ostensibly public university looked increasingly like a “state-assisted” rather than “tax-funded” enterprise.[34] This was a clear recognition that university administrators would need to find other ways to fund the university’s operations as state funding levels sunk and enrollment rose.

Cuts to state funding were coincident with broader shifts occurring in the 1980s. On the heels of a succession of economic crises in the 1970s—stagflation, the oil embargo, declining corporate profits—a turn toward finance offered the opportunity to circumvent conflicts between industry and labor, as well as a seeming avenue toward sustained economic growth. Federal policymakers deregulated financial markets, expanding access to new forms of investment as well as consumer credit, and raised interest rates to conquer inflation, prioritizing price stability over employment. The result was the vast expansion of the financial sector: from 1980 to 2006, “GDP increased 5-fold; non-financial profits grew 7 times larger, while financial profits grew by a factor of 16.”[35] Pension funds played a pivotal role in the transformations taking place in this era. The development of funded pensions—which pay retirees on the basis of returns generated in financial markets rather than via the contributions of current employees as in the old “pay-as-you-go” model—meant that “pension capital was a

5x	7x	16x
GDP	Non-Financial Profits	Financial Profits

Growth of the financial sector, 1980-2006

34 “The UCLA Campaign: Campaign Planning Guide Working Draft.”

35 Appel, Whitley, and Kline, “The Power of Debt,” 11.

major driver of [financial] liberalization and innovation."[36] The search for yield to cover these pension obligations drove institutional investment into private equity, hedge funds, real estate and other financial frontiers. Meanwhile, funds like CalPERS, the pension fund for California's public sector employees, became synonymous with the rise of shareholder primacy.[37]

Paradoxically, as students and their families reached deeper into their future earnings, endowments rose hand-in-hand with these debt loads

The most obvious manifestation of the financialization of higher education is the explosion of student debt. Paradoxically, as students and their families reached deeper into their future earnings, endowments rose hand-in-hand with these debt loads. This disconnect—one that feeds frustrations among the indebted, who wonder why all that endowment money does not mitigate student costs—illustrates the gnarled exigencies of contemporary university finances. Thanks to restrictions in how (and how much) endowment money can be used, it could not directly replace the unrestricted money coming from the state—a function that tuition money could more easily replicate. Thus while the university and its investment team are eager to celebrate the steady growth

IN 2023, THE MARKET VALUE OF ASSETS UNDER MANAGEMENT ACROSS THE ENDOWMENT, PENSION, AND OTHER INVESTMENT POOLS STOOD AT $164 BILLION

in the market value of assets under management across the endowment, pension, and other investment pools—which as of 2023 stood at an arresting $164 billion[38]—a much smaller proportion of this money flows back to the university's on-the-ground operations.[39] Like all endowments, the UC sets a spending rate (as of 2023, 4.75%[40]) meant to capture some of the returns accruing to the university's investment activities without drawing down the principal. This expenditure policy, which when combined with annual inflation demands returns in excess of 7% to grow the endowment in real terms, exerts a powerful and constant pressure on the UC's investment team.[41]

There was never a moment, then, in which the endowment was tapped as a direct replacement for state funds, and indeed it could not be. Instead, cuts to public funding occurred in an environment in which capital markets seemed to offer newly strapped institutions promise as an alternative source of funding. In this environment, state funding declined, tuition and debts rose to partially make up the shortfall, and the university's endowment grew

36 Braun, "Fueling Financialization," 74.

37 Jacoby, ***Labor in the Age of Finance***. Enabling this was legislation like the 1974 Employee Retirement Income Security Act (ERISA), which established a prudence standard for pension fund managers that stipulated portfolio diversification and the 1996 National Securities Markets Improvement Act, which allowed pension funds to do business with hedge funds. See Van Der Zwan, "Financialisation and the Pension System" and Braun, "Fueling Financialization."

38 "Annual Report, 2022-23."

39 While the General Endowment Pool is reported and invested as an aggregate sum of various smaller endowments, those component endowments are restricted to particular expenditures, typically spelled out by donors at time of gift. See "University of California General Endowment Pool (UC Endowment) Investment Policy Statement"; Interview, AFSCME researchers, 9/14/2022.

40 "University of California General Endowment Pool (UC Endowment) Investment Policy Statement."

41 Those margins mean that while real estate may make up less than 15% of the UC's endowment, its higher or lower returns have major implications for the endowment returns available for the school to spend.

increasingly important to the UC's self-understanding despite its inability to address tuition costs. The endowment has in turn grown in complexity and sophistication, following wider trends in financial markets.

For all of its early history, the UC's endowment philosophy was a straightforward matter of finding the proper balance between investments in bonds and publicly traded stocks. Historically, investments were weighted toward the latter. In 1933, the regents voted to increase substantially university holdings of common stock in "well-known companies,"[42] and in 1958 the regents established a floor of 60% of the university's investments in publicly traded shares.[43] In 1981, archival sources describe an endowment policy that stipulates a mix of 75% equity and 25% fixed income, and at the turn of the century, 95% of the endowment was invested in common stock or fixed-income securities, with the remainder in "alternative equities" that included a "minor amount of gifted real estate."[44] The General Endowment Pool (GEP), which aggregates operational funds for campus expenditure, and the university's pension fund included identical asset allocations.

But this changed as the universe of financial assets and asset classes dramatically expanded in the 1980s, 1990s and 2000s. As Charlie Eaton has recently shown, much of the financial innovation occurring in this time—the birth of hedge funds, private equity, and active money management—was enabled by the "social circuitry of finance" incubated at private universities like Harvard and Yale.[45] In these places, large institutional pools of money combined with elite social networks linking the Ivy League and the bankers to enable the latter to capitalize new investment funds with endowment wealth.

In the 2000s, the UC's regents began to look aspirationally toward this Cambridge-Wall Street nexus and directed their own investment office to begin pursuing a strategy of investment in "alternative" asset classes.[46] This meant sacrificing short-term liquidity for long term growth. Investments that could be quickly liquidated into cash were siloed into funds like the Total Returns Investments Pool (2008) and Blue and Gold pool (2019)—the latter created with the explicit proviso of "reducing reliance on state funds."[47] These shorter-term and more liquid funds freed up the pension and endowment for investment into illiquid assets with longer time horizons.

Such a transformation was shepherded in the first place by financial consultants, most prominently Wilshire Associates, located just down the road from UCLA in Santa Monica. In 1999, Wilshire was retained by the university to consult on its investment policy; a year later, it issued a report recommending the university diversify its portfolio by increasing investments in private equity and non-U.S. investments. The UC set about implementing these recommendations by outsourcing investment decisions to financial consultants and external fund managers, deepening the interface between the university and the financial industry and over the next several years expanding the set of asset classes into which it made formal allocations.[48] Under the tutelage of Wilshire Associates and others, UC's regents first expanded the university's investments in private equity (i.e. venture capital and leveraged buyouts) in

42 Stadtman, ***The Centennial Record of the University of California***, 1868-1968, 211.

43 "Committee on Investments, January 19, 2000."

44 "Treasurer's Annual Report, 1998-1999," 2.

45 Eaton, ***Bankers in the Ivory Tower***.

46 "Treasurer's Annual Report, 2002-03."

47 "Annual Report, 2021-22." 82.

48 Such changes to UC's investment practices were controversial among the university's employees and pension recipients at the time. See Parker, "Understanding the UC Retirement Plan Changes."

2000. This was followed by the inclusion of an allocation toward “absolute return” (i.e. hedge fund) strategies in 2002 and, most importantly for our narrative, toward real estate in 2003.

Alternatives now comprise a 50% target for the endowment and 30% target for the pension

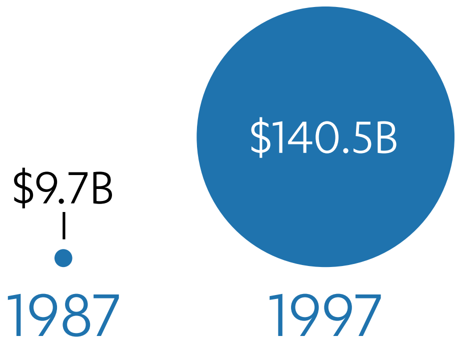
“Alternatives” like these would continue to grow in prominence in the university’s portfolios over the next two decades, and now comprise a 50% target for the endowment and 30% target for the pension.[49] A recurrent anxiety motivating this transformation of investment policy was the behavior of the university’s “peer institutions” and the sense that the UC was being left behind by other more sophisticated institutional investors. In 2015, for example, then-outgoing Chair of the Regents’ Committee on Investments Paul Wachter called the move toward an active management style and inclusion of a broader range of alternative assets the “Endowment Model,” one “most associated with David Swensen of the Yale endowment.”[50]

49 Annual Report, 2021-22.”

50 “Annual Report, 2014-15,” 12.

Turning Real Estate into an Asset Class

The initial movement of institutional investors like pension and endowment funds into real estate was facilitated by the growth of real estate investment trusts (REITs), specialized financial firms that use institutional investment to acquire large property portfolios and pay out the income earned from these portfolios as dividends to shareholders. Though legislation meant to encourage the development of the REIT industry in the United States was signed into law as early as 1961, it was not until the 1980s and 1990s, as the American economy underwent widespread financialization, that it truly took off. Between 1987 and 1997, the market capitalization of the country's REIT sector grew from $9.7 billion to $140.5 billion, while the number of registered REITs nearly doubled.[51] Growing liquidity in the REIT market granted institutional investors access to real estate through vehicles that could be bought and sold like conventional corporate stocks. As the REIT market segment grew during the nineties, the UC investment team had been "dipping its toes" in real estate, mostly through investment in publicly-traded REITs that were listed on stock indices comprising the 3,000 largest American firms.[52] But the perception remained that the "University of California was a laggard…in terms of getting into the real estate area."[53]



Between 1987 and 1997, the market capitalization of the country's REIT sector grew from $9.7 billion to $140.5 billion

51 Aalbers et al., "In Real Estate Investment We Trust."

52 Interview, former Treasurer's office employee, 5/5/2023. See also "Committee on Investments Investments Advisory Committee, March 4, 2003."

53 Interview, former Treasurer's office employee, 5/5/2023.

Blackstone here reenters the story, thanks to its special role in cultivating the conditions for the expansion of the residential REIT market. The largest landlord in the United States and largest real estate company in the world,[54] it is also the financial firm most directly responsible for turning single-family housing in the U.S. into an asset class after the 2008 financial crisis. As new inventory became available thanks to widespread foreclosures, the firm leveraged cheap debt and new property-searching technologies to focus on foreclosure hotspots, buying up underwater properties at fire-sale prices in supply-constrained markets and converting them into rental housing.[55]

BLACKSTONE IS THE LARGEST LANDLORD IN THE UNITED STATES AND LARGEST REAL ESTATE COMPANY IN THE WORLD

Christophers interprets Blackstone's "buy it, fix it, sell it" strategy—enacted across the United States via its Invitation Homes subsidiary and throughout Western Europe via massive targeted investments in Stockholm, Berlin, and Copenhagen among others—as a way of exploiting the discrepancy between actual and potential rents generated by what are primarily unrenovated housing portfolios in housing markets characterized by strong demand.[56] Evicting, cajoling, or bribing existing tenants into leaving and making (often but not exclusively cosmetic) improvements to its housing stock enables the firm to take advantage of strong demand to "close" the gap between actual and potential rent levels. In the United States, this process was moreover facilitated by structural transformations in the post-crisis political economy of housing, which by 2016 increased the proportion of renters by 6% (from 31% before 2008 to 37%). These elements coincided with a globally ascendant economic orthodoxy that the penetration of financial capital into housing markets would most rationally distribute housing stock, a process that continues to dramatically remake urban spaces.[57]

Blackstone has since reduced its position in the single-family housing business, taking Invitation Homes public in 2017 and netting an estimated $3.5 billion in the process. When Blackstone sold its final remaining stake in Invitation Homes in 2019, market commentators were right to identify its epochal role in "[taming] the final frontier in real estate for institutional investors and [gaining] a toehold in the largest asset class in the world: the U.S. single-family home."[58]

Students nationwide are now paying rent to fund California's education system

But its BREIT portfolio still comprises $71 billion in industrial, commercial, and residential real estate; 56% of this portfolio is in rental housing, mostly in the American South and West. In addition to multifamily units and affordable developments, Blackstone's purchases during the COVID-19 pandemic made them the largest owner of student housing in the US,[59] meaning that students na-

54 Ash, "Blackstone Comes to Collect."

55 Christophers, "How and Why U.S. Single-Family Housing Became an Investor Asset Class."

56 Christophers, "Mind the Rent Gap." The phenomenon enabling this strategy is described in the urban studies literature as a "rent gap," after Smith, "Toward a Theory of Gentrification."

57 Rolnik, ***Urban Warfare***.

58 Dezember, "Blackstone Moves out of Rental-Home Wager with a Big Gain."

59 Ash, "Blackstone Comes to Collect."

tionwide are now paying rent to fund California's education system, and paying out other Blackstone shareholders along the way. The BREIT also re-established a toehold in the single-family rental market during the early months of the pandemic through its acquisition of Home Partners of America, a portfolio of over 28,000 homes representing 8% of the fund's total asset value.[60]

The firm's reach and scale likewise allows it to manipulate the background conditions of real estate markets

The geographic concentration of Blackstone's holdings grants the fund market-making powers, allowing the firm to push local rent markets higher.[61] The firm's reach and scale likewise allows it to manipulate the background conditions of real estate markets: in California, Blackstone has fought to ensure its continued earnings by spending millions to defeat proposed rent control laws.[62] While Blackstone argues that it forewent evictions during the height of the COVID-19 pandemic and strives to improve the neighborhoods they invest in,[63] the expansion of corporate landlordism after 2008 has been found to correlate with higher rates of eviction and foreclosure, heightened rent increases, and excessive fees.[64] 11.25% annual returns have to come from somewhere.

The expansion of corporate landlordism after 2008 has been found to correlate with higher rates of eviction and foreclosure, heightened rent increases, and excessive fees

Blackstone has cultivated a close relationship with the university that would later offer a lifeline to its REIT. The firm found a foothold on campus in 2007 with "Blackstone LaunchPad," a partnership between Blackstone and UC giving students the opportunity to take their ideas to the market with the support of "venture coaches and an entrepreneurial support system."[65] While Blackstone offers entrepreneurial opportunities to a handful of UC students, many of those same UC students struggle to get by as Blackstone serves as their landlord. American Campus Communities, a student-housing firm now majority owned by the BREIT, has properties at UC Berkeley and UC Irvine; two UC regents have close ties with Blackstone from other business dealings.[66]

60 "BREIT Property Book."

61 See, e.g., García-Lamarca, "Real Estate Crisis Resolution Regimes and Residential REITs."

62 Ash, "Blackstone Comes to Collect," Christophers, "Mind the Rent Gap."

63 "Our Commitment to Being Responsible Owners."

64 Ferrer, "Beyond Wall Street Landlords."

65 "Blackstone Charitable Foundation Announces Expansion of Successful Campus Entrepreneurship Program 'Blackstone LaunchPad' to California."

66 Cunningham-Cook, "The University of California Is Bailing Out Private Equity Giant Blackstone."

A Full-Fledged "Commercial Buyer, Seller, and Lessor in the Real Estate Market"

UC's Evolving Real Estate Strategy

Even before their real estate operations had fully developed, UC treasurers' office touted the maturation of this asset class thanks to the "increased depth of debt and equity markets for real estate," increased information available to investors about real estate markets, and more regulatory oversight and discipline in real estate lending, "which resulted in a more measured pace of development" of property.[67] The maturation of the endowment meant that, as political economic conditions changed, the UC was able to take advantage of real estate's newfound attractiveness as an asset class. In March 2003, representatives at the Treasurer's office reported to UC's Regents on the numerous advantages of real estate investment, noting that annual returns for REITs over the prior ten years had exceeded the S&P 500 and that real estate exhibited low correlation with other asset classes. It could also function as a useful "inflation hedge," since rents were inflation-indexed and could therefore be passed on to tenants.[68] Also present in an advisory capacity at this meeting was an investment officer from CalPERS, who explained to the Regents that 9% of CalPERS' $133 billion of assets under management had been allocated to real estate.

The UC was able to take advantage of real estate's newfound attractiveness as an asset class

With the imprimatur and expertise of the nation's largest public pension fund and the approval of its team of financial consultants, a month later the Treasurer recommended a "dual public and private strategy" for real estate split between publicly-traded REITs and partnerships with private unlisted funds.[69] The Regents formalized this program in May, allocating 5% of the endowment and pension to real estate.

67 "Treasurer's Annual Report, 2005-06," 13.

68 "Committee on Investments Investments Advisory Committee, March 4, 2003," 2.

69 "Committee on Investments Investments Advisory Committee, April 22, 2003."

Direct investment in real estate opportunities where the university could function as the "sole owner and manager of the property" would become an object of increasing focus

UC's real estate investment strategy would be further refined in the years leading up to the 2008 financial crisis and after. Investment Committee minutes from this era paint the picture of an investment team developing the increasing capacity to manage the university's real estate portfolio in-house. The university began to transform itself from an institutional participant seeking to catch up to its peers into a "tactical"[70] and sophisticated investor in real property. In 2006, in a euphoric pre-crisis environment of inflated real estate values, the Treasurer's team proposed a strategy of increasingly targeting "enhanced" and "high return" real estate assets that would require improvements to decrease vacancies and increase rent levels. Also on the table for the first time were "direct investments" in properties (rather than investment in real estate funds) and increasing attention to "senior housing, medical offices, student housing, self storage, and hotels."[71] Direct investment in real estate opportunities where the university could function as the "sole owner and manager of the property" would become an object of increasing focus in the following years.[72]

The move to take advantage of these market dynamics represents a transition in the university's financial relationship with land

When the financial crisis hit, a chastened treasurer noted the attractive "supply-demand drivers, and asset specific submarket dynamics" motivating an increase in the long-term targets for real estate investment. She wrote: "High construction costs and lack of available debt have resulted in a very limited supply of new development projects in major markets. Combined with low existing vacancy levels, the fund's portfolio is poised to weather the slowdown in leasing requirements." [73] Low supply, with little hope for change, would drive up demand, and with it rents. The school's reasoning is identical to Blackstone's itself, amid the firm's own post-GFC pivot to residential real estate. The move to take advantage of these market dynamics represents a transition in the university's financial relationship with land from a century prior. In the early days, bequests of land were made for the endowment. Here, we see investment into land by the endowment—reflecting changes in the political economy of real estate coincident with the endowment's increasingly sophisticated management.

Even so, investment into real estate was still in a "build-up stage" when markets came crashing down during the financial crisis. This would prove to be an advantage. In the depths of the crisis, "the University [had] minimal exposure to single-family housing," where property values were disintegrating and foreclosures skyrocketing.[74] At

70 "Committee on Investments, December 13, 2011," 12.

71 "Committee on Investments Investments Advisory Committee, August 24, 2006," 4.

72 "Committee on Investments, December 13, 2011."

73 "Treasurer's Annual Report, 2007-08," 10.

74 "Committee on Investments Investments Advisory Committee, September 10, 2009," 17.

the same time, the measured pace with which the university made real estate investments to achieve the policy benchmarks established in 2003 mitigated some of the worst effects of the recession, and the 2008 crash in real estate valuations offered “opportunities to purchase attractive properties at distressed prices.”[75]

In 2011, as the nadir of the crisis receded, UC’s investment team was confident that they had successfully withstood the storm. “Many of the Chief Investment Officer’s fund managers did not invest when the market was its highest,” they reported. “They were able to buy a number of attractive real properties near the bottom of the market, and so have benefited from the upturn in the real estate market.”[76] Approximately $1 billion had been earmarked for the purchase of distressed properties in 2008. Purchases began in 2010; two years later, the treasurer reported the happy news that “[r]eal estate returns are expected to outperform other asset classes in the near to medium term.”[77] In the turbulent post-recession environment, the UC’s investment team were able to acquire some of these assets at half price, which they credited twelve years later with driving particularly strong returns in real estate.[78]

$3.2B → $10.25B

2015 2024

Real Estate Porfolio Growth

By September 2015, the university’s real estate portfolio had grown to $3.2 billion. More than half of this investment was in its separate account program, through which the UC targeted specific properties to buy and flip.[79] It was in this year that the investment team also made its first direct investment in a piece of property, unmediated by outside financial managers—purchasing, emblematically, the Oakland office building (1111 Broadway) in which it worked. Also around this time, Jagdeep Bachher—who had assumed the position of Chief Investment Officer in April 2014—floated the idea of establishing a university real estate operating company through which properties could be purchased and managed. This idea has recently resurfaced, with the proposal in March 2023 to allocate $2 billion across the university’s pension and endowment in campus-adjacent real estate through an LLC operated by UC Investments.

Residential real estate has come to occupy an important position in the university’s investment calculus

Over time, then, UC’s Office of the CIO has become a full-fledged “commercial buyer, seller, and lessor in the real estate market.”[80] Residential real estate has come to occupy an important position in the university’s investment calculus. By 2019 UC’s investments team had even added single-family housing to the endowment;[81] as of 2021, 19% of its real estate portfolio was composed of multi-family housing and 2.3% in student housing.[82] The COVID pandemic prompted a streamlined approach to real estate

75 “Committee on Investments, December 13, 2011,”10.

76 “Committee on Investments, December 13, 2011,” 12.

77 “Treasurer’s Annual Report, 2011-12,” 14.

78 “Investments Subcommittee, November 13, 2018.”

79 “Committee on Investments Investments Advisory Group, September 9, 2015.”

80 “Investments Committee, November 16, 2022,” 2.

81 “Investments Committee, March 12, 2019.”

82 “Investments Committee, November 16, 2021.”

investment: in 2021, UC Investments senior managing director Satish Ananthaswamy recalled that the endowment and pension "started the fiscal year with an over diversified real estate portfolio that was cumbersome to manage. We ended the year by reducing the number of our investments by more than 20 percent and adding value."[83]

The Blackstone deal represented an intensification of this approach, and a quantitative increase in the UC's real estate investments. The ground for this investment has been amply laid over two decades of increasingly confident participation in real estate markets.

At present, the UC's real estate investment practices seem to resolve into two poles. On the one hand, the commitment of a large proportion of the target allocation into BREIT allows the UC to take a hands-off approach in the management of its real estate portfolio by letting a trusted private equity partner handle the acquisition, oversight and sale of property. On the other, the potential formation of a real estate LLC within the Office of the CIO enables the university to act more systematically as a landlord closer to home, focusing on those areas where, in the words of Bachher, it has a "competitive advantage."[84]

83 "Annual Report, 2020-21," 63.

84 UCLA's recent buying spree across Los Angeles demonstrates what this effort might come to look like. Since 2022, the school has bought two smaller college campuses from the defunct Marymount California University in Rancho Palos Verdes and San Pedro thirty miles south of the school's main campus; a high-rise in downtown Los Angeles; and the Westside Pavilion, a former mall two miles south of campus. Chancellor Gene Block described the moves as "seeds we are planting and investing in today [that] will become great trees." From UCLA Newsroom, "UCLA acquires L.A.'s former Westside Pavilion to transform empty mall into the UCLA Research Park."

Conclusion

Until such a direct investment arm takes hold, the rise of real estate as an asset class means that the UC's investments in land are mediated by other market actors, most prominently Blackstone. The very first holding in the Blackstone Real Estate Income Trust was the Hyatt at UC Davis, for which the BREIT paid $32.2 million in 2017. Now, with UC's investment into the BREIT, guests at the hotel will again be funding the university.

The graduate worker and postdoc strike of fall 2022, and the UC's subsequent BREIT investment, occurred amid high inflation rates as the U.S.'s post-COVID economy came back to life. In this context, real estate operates for the university and its investment team as an inflation hedge, passing the costs of inflation along to tenants. Academic workers' attempts to achieve a contractually guaranteed cost-of-living adjustment were predicated on a similar logic: in an inflationary environment, cost of living would rise, and salaries ought to rise to keep pace. The UC achieved its hedge; its workers, many of them also renters, did not.

Real estate remains a minority portion of the UC's endowment, but the size of the UC's investment in Blackstone deepens its importance. Moreover, it implicates a new constituency in the funding of the school: the guaranteed 11.25% annual return from the BREIT is generated by rising rental prices in properties across Blackstone's portfolio. UC's Blackstone investment represents an expanding frontier in the "state-assisted" university's attempts to fund itself amid state retrenchment, pulling in rents paid across the state, nation, and globe. This reconfiguration of the constituencies of the university is achieved not through the fiscal power of the state but rather through rental income the UC collects as an institutional investor and landowner. While these tenants' rents now pay into the UC's endowment and pension, most are not being conferred any particular benefit by the school via this relationship.

To achieve profitability in investment properties, Blackstone depends on rent increases (and when necessary evictions to achieve them)—thus contributing to the cost of living crisis already felt so acutely in California. That is why labor unions across the UC coordinated to demand that the school divest from Blackstone upon the deal's announcement:[85] the rising housing costs by which Blackstone will fulfill its 11.25% annual returns to the UC will in many cases make life more expensive for those studying and working at the UC.

The growing significance of real estate to the UC reconfigures the relationships between tenants, workers, students, and the university, offering the possibility of new coalitions. UC's increasing holdings need not necessarily bring renters distress; an imaginative public university could consider a range of factors beyond the purely fiduciary in imagining how it might wisely wield its real estate heft. Below, we offer a set of proposals as to how the UC might fund itself while working toward the public interest.

85 See, e.g., Gittelsohn, "Blackstone's (BX) $4 Billion California Deal Riles University Unions."

Policy Proposals

1. Solicit input from and participation by university stakeholders and faculty to ensure UC Investments' planned real estate company operates in the public interest.

Alongside its investment in Blackstone, the UC's Office of the CIO has recently signaled a renewed desire to establish its own real estate operating company,[86] developing an in-house team which could own and manage campus-adjacent property. Given its nascent stage, there is opportunity for the university, its regents, and its investment team to draw from UC's extensive network of scholarly expertise in developing the scope and mission of this project. In the past, the CIO has modeled a different kind of engagement with the pathbreaking work of university faculty through the creation of UC Ventures, a venture capital fund meant to finance and benefit from the university's "robust innovation ecosystem."[87] So too can the university's ecosystem of housing scholars be a resource for the CIO's new real estate initiative, helping to ensure that the university's investments in some of the most expensive and constrained rental markets in the country improve rather than exacerbate the statewide crisis of housing affordability. As we have described throughout this report, many transformations in university investment practices over the last thirty years have emanated from elite private institutions on the East Coast. Rather than anxiously measuring itself by the yardstick of the Ivy League, here is an arena in which the UC can take the lead as a public university with the public purpose squarely in mind.

2. Develop clear ESG targets for real estate investments.

Speaking at the UC Regents meeting in November of 2021, Chief Investments Officer Jagdeep Bachher suggested that his team hoped to incorporate more fully environmental, social, and corporate governance (ESG) targets into their real estate strategies. "We have done more of a cursory job than a deeper job in our real estate portfolio, to really embed ESG policies with our managers... As we are continuing to integrate ESG across all our asset classes, as we buy more assets, that is important for us. And where we own current assets we've been more focused on trying to monetize and realize the returns as opposed to getting them to become ESG-compliant. So it is clearly front and center for the

86 Jacobius, "UC Regents Explores Creating In-House Real Estate Operating Company."

87 "Committee on Investments, September 17, 2014," 7.

future as we reorganize our real estate portfolio." This is a good idea, and the university ought to take its leadership role seriously as a large institutional real estate investor and pursue policies that lead not only to environmental and social sustainability but more particularly to affordability in the real estate markets where its students and workers live.

Scholars have found some evidence that high performance on the ESG scale is linked with corporate performance.[88] The point, however, is not that investing with ESG criteria at front of mind will lead inexorably to the highest returns. Instead—and especially considering that ESG accounting in real estate markets has historically failed to consider the "users" of real estate[89]—the university ought to pursue real estate investment policies that honor its role as a public institution serving Californians. Building on earlier ESG criteria established to consider environmental sustainability, the university needs an ESG policy for its real estate investments, one which considers such factors as eviction rates, rent increases, and tenant complaints in deciding where and how to invest. Moreover, the school's scale and preeminence as an investor could allow it to demand certain performance on these metrics from the firms it invests with. Taking such metrics seriously would fulfill the UC's mission as a public institution accountable to all Californians.

3. Re-fund the public university.

Ironically, the state's budget constraints can also be connected back to real estate. Ever since the passage of Proposition 13 in 1978, capping the property taxes that could be collected on real estate at 1% of the property value at the time of purchase, the state's available public funds for education have dwindled. Repeal of Prop 13 is unlikely, but would allow the state to spend more on its public programs. Absent that event, there is widespread recognition in the state of the need to refund the university. Governor Gavin Newsom in 2022 proposed a five-year compact to expand state funds disbursed to the university by five percent each year, stipulating targets for access, equity, and affordability for students.[90]

The compact is a good start, but it fails to address the scale of the issue. As detailed above, in the last four decades state funding has dropped from covering more than 75% of core funds, which the university can spend flexibly as needed, to 46%. That drastic decrease has been made up by tuition hikes and by the turn to financial markets, but the former erodes the UC's public mission, and

88 Aroul, Sabherwal, and Villupuram, "ESG, Operational Efficiency and Operational Performance" and Friede, Busch, and Bassen, "ESG and Financial Performance."

89 Kempeneer, Peeters, and Compernolle, "Bringing the User Back in the Building."

90 "Gov. Gavin Newsom Proposes 5-Year Funding Compact with the University of California."

the latter is insufficient to cover for the lost funding. For the university to perform its core research and teaching missions—and to reach its ambitious goals of graduating an additional 200,000 undergrads and close achievement gaps before 2030[91]—will require a robust public investment in the public university.

4. Continue to make affordable student housing a priority.

California's crisis of housing affordability is acutely felt among the state's students, thousands of whom experience homelessness during the course of their education and for whom housing represents between 43% (at the UC) and 68% (at California's community colleges) of the cost of attendance.[92] Over the last several years, the state has correctly prioritized measures to provide students with access to secure and affordable housing in its higher education budget, most prominently through a Higher Education Student Housing Grant (HESHG) program established in 2021. Grants disbursed through that program will pay for more than 11,000 affordable beds for students at the UC, California State universities, and California's community colleges—an important first step toward ensuring that a greater proportion of the state's students have the stability and support they need to excel.[93] But ongoing budget constraints hamper the effectiveness of this effort and require enlisting the financial industry to help, with potentially counterproductive results. Amid a budget shortfall last year, the state converted its student housing grants into ongoing debt service support for university-issued bonds that will now pay for these new affordable housing projects. Now, instead of the state paying for the construction directly, universities will raise the necessary money by issuing debt, which the state has promised to repay. This move saved $490 million for the state in the immediate term[94] but increased the cost of the proposed projects by 140% as a result of the interest California's colleges and universities will have to pay to capital markets.[95] Legislators should build on the successes of the HESHG initiative by continuing to treat affordable student housing as a priority area, without crafting policy that further contributes to the financialization of higher ed in California.

91 UC Information Center, "UC 2030 dashboard"

92 "Analysis of the Higher Education Student Housing Grant Program."

93 Zinshteyn, "Legislative Fix Would Save Student Housing at Some California Community Colleges."

94 "State Converts UC Student Housing Grants to Revenue Bonds"

95 Zinshteyn, "Newsom Changes Course, Now Wants More Student Housing Money Sooner."

5. Diversify the Regents.

The Regents of the University of California are tasked with governing the UC system, including making consequential financial and administrative decisions for the entirety of the university. The California State Constitution states that all Regents "shall be able persons broadly reflective of the economic, cultural, and social diversity of the State." While the Board of Regents has improved these metrics of representation in recent years, it fails in important ways to represent the broader UC system. In 2018, then-student regent Paul Monge told the Daily Bruin that "one thing that for many years felt like it was lacking was regents with substantive experience in higher education."[96] This still rings true. A majority of the current Regent board members have backgrounds in business and finance, with few bringing an educational background to the board—of the eighteen appointed non-student regents, only two tout experience teaching in universities after receiving their terminal degree. Foregrounding the university's core teaching and research missions will depend on a board able to engage with the many needs of its students and workers holistically. More regents who understand the university from a variety of perspectives beyond its financials would be an important step in this direction.

6. Expand rent control provisions.

Blackstone has spent more than $10 million opposing ballot measures in 2018 and 2020 that would have broadened California cities' ability to implement rent control protections in their housing markets. Thanks partially to the firm's efforts, the Costa-Hawkins Rental Housing Act (1995) remains in place.[97] This prevents cities from implementing rent control on buildings built after 1995, including single-family homes and condos, and allows landlords to raise rents to "market rate" when a new tenant moves in. In 2019, UN human rights experts wrote CEO Stephen Schwarzman a letter decrying Blackstone's practices.[98] The firm had helped to instigate structural developments "whereby unprecedented amounts of global capital are being invested in housing as security for financial instruments and traded on global markets, which is having devastating consequences for people," and now it was "using its significant resources and political leverage to undermine domestic laws and policies that would in fact improve access to adequate housing consistent with international human rights law."

96 Coneeny, "Student Representatives Claim Board of Regents Misrepresents College Population."

97 On the history of rent control in Los Angeles and the role of Costa Hawkins in preempting more assertive local rent control measures, see Katz, "People Are Simply Unable to Pay the Rent."

98 Deva and Farha, "OL OTH 17/2019."

Protecting affordability for California's public may well mean making real estate a less attractive investment for corporate landlords. A number of interim possibilities exist to empower renters with respect to their landlords: guaranteeing renters lawyers in court cases against landlords, a measure implemented by San Francisco in 2018; limiting the size and concentration of large landlords' portfolios and building institutional capacity to investigate landlords with predatory patterns of behavior, among others.[99] The Private Equity Shareholder Project surveys a number of attempted policy interventions to address corporate landlordism, including capping corporate ownership at a certain number of units per county, banning conversion of single-family homes to rental units, and taxes on high-volume landlords.[100] The Corporate Landlord Accountability Act, proposed in California in 2021 but which failed to make it out of committee, would have imposed a tax on high-volume landlords in the state and used the proceeds for assistance to renters and smaller landlords, legal aid for tenants, and social services for the unhoused. California voters will again vote on a ballot initiative to repeal Costa Hawkins in 2024, which would empower municipalities to implement more robust rent control protections. Such an effort should be supported.

99 Ferrer, "Beyond Wall Street Landlords."

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